2007-08 Governor's Budget

Highlights

Department of Health Care Services

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January 10, 2007

CALIFORNIA DEPARTMENT OF HEALTH CARE SERVICES PROGRAM OVERVIEW

The mission of the California Department of Health Care Services (DHCS) is to protect and improve the health of all Californians through operating and financing programs delivering personal health care services to eligible individuals.

The Health Care Services Programs provide services to ensure low-income Californians have access to health care services and that those services are delivered in a cost effective manner. The Medical Care Services (Medi-Cal) program is a health care program for low-income and low-resource individuals and families who meet defined eligibility requirements. Medi-Cal is responsible for coordinating and directing the delivery of health care services to 6.7 million qualified persons and families, including low-income families, seniors and persons with disabilities, children in families with low-incomes or in foster care, pregnant women, and low income people with specific diseases. Long-term care program provides development and administration of a number of long-term care delivery systems. Children's Medical Services is responsible for coordinating and directing the delivery of health services to low-income and seriously ill children and adults with specific genetic diseases, including the Child Health and Disability Prevention Program, Genetically Handicapped Persons Program, California Children's Services Program, and Newborn Hearing Screening Program. Primary and Rural Health is responsible for coordinating and directing the delivery of health care to Californians in rural areas and to underserved populations, including the Expanded Access to Primary Care Program, the Indian Health Program, the Rural Health Services Development Program, and the Seasonal Agricultural and Migratory Workers Program.

Senate Bill (SB) 162, which establishes the California Department of Public Health (CDPH), also renamed the existing California Department of Health Services (CDHS) as the California Department of Health Care Services. The reorganization into two smaller, more focused departments will provide increased attention and responsiveness across all health related programs and policies and will increase accountability and improve program effectiveness for the health care purchasing functions of state government.

As required under the provisions of SB 162, the reorganization of the CDHS into the CDPH and the DHCS is budget neutral. That is, there is no change in overall state funding and no change in position authority due to the reorganization.

GENERAL BUDGET OVERVIEW

The budget for DHCS supports activities and services that reinforce the State's commitment to protecting and improving the health of all Californians. For Fiscal Year (FY) 2007-08, the Governor's Budget provides a total of \$38.1 billion for the support of DHCS' programs and services. Of the amount proposed, \$419 million is for state operations and \$37.7 billion is for local assistance. The proposed

budget affirms the Department's commitment to address the health care needs of Californians. It does this through responsible proposals that continue to address the needs of the most vulnerable populations.

Total DHCS Budget

DHCS Budget by Fund Source *		
Governor's Budget Fund Source	2007-08 Proposed	
General Fund (GF)	\$ 14,902,710	
Federal Funds (FF)	\$ 21,073,001	
Special Funds & Reimbursements	\$ 2,131,534	
Total Funds	\$ 38,107,245	

^{*}Dollars in thousands

State Operations

State Operations by Program *				
Governor's Budget Program Title	Program	2007-08 Proposed		
Health Care Services	20	\$ 418,790		
Department Administration	30.01	\$ 24,882		
Distributed Administration	30.02	\$ (24,882)		
Total State Operations		\$ 418,790		

^{*}Dollars in thousands

State Operations by Fund Source *		
Governor's Budget Fund Source	2007-08 Proposed	
General Fund	\$ 151,700	
Federal Funds	\$ 253,669	
Special Funds & Reimbursements	\$ 13,421	
Total State Operations	\$ 418,790	

^{*}Dollars in thousands

Local Assistance

Local Assistance by Program *			
Governor's Budget Program Title	Program	2007-08 Proposed	
Health Care Services	20	\$ 37,688,455	
Total Local Assistance		\$ 37,688,455	

^{*}Dollars in thousands

Local Assistance by Fund Source *		
Governor's Budget Fund Source	2007-08 Proposed	
General Fund	\$ 14,751,010	
Federal Fund	\$ 20,819,332	
Special Funds & Reimbursements	\$ 2,118,113	
Total Local Assistance	\$ 37,688,455	

^{*}Dollars in thousands

BUDGET ADJUSTMENTS

MEDICAL SERVICES

Drug Rebate Program: Revenue Maintenance and New Revenue

11.0 Positions \$1,085,000 Total Funds

\$ 542,000 GF \$ 543,000 FF

The Governor's Budget converts 5.5 existing limited-term positions in the Medi-Cal Drug Rebate Program to permanent status and extends 5.5 existing limited-term positions for one year to handle a backlogged and increasing workload in collecting rebates from drug manufacturers. These positions are needed to fill the gap between workload and staffing to prevent the loss of approximately \$120 million of rebate revenue for FY 2007-08, and subsequent years.

Intermediate Care Facility for the Developmentally Disabled – Continuous Nursing (ICF/DD-CN) Pilot Project Extend Staffing

3.0 Positions \$262,000 Total Funds

1.0 Positions (CDPH) \$ 81,000 GF

\$112,000 FF

\$ 69,000 Other Funds (CDPH)

The Governor's Budget extends for two years four (4) limited-term positions, due to expire January 1, 2008, to oversee this pilot project and to contract and manage a third independent assessment of the ICFDD-CN pilot project. This independent assessment is required in the "conditions for approval" in the last Waiver renewal. The Department will submit a Waiver renewal application in 2007 that is anticipated to be approved by Centers for Medicaid and Medicare Services (CMS). The pilot has consistently achieved federal cost neutrality as required by CMS for continued Waiver approval. Currently, there are six pilot facilities with a total of 36 individuals enrolled.

County Performance and Coordination

2.0 Positions \$195,000 Total Funds

> \$ 97,000 GF \$ 98,000 FF

The Governor's Budget converts two (2) limited-term positions to permanent status to continue to monitor county performance standards established in 2003. County performance measures result in an estimated cost avoidance of \$220.0 million GF annually based on increased funding to the counties and timely completion of eligibility determinations and annual redeterminations.

Specialty Mental Health Waiver Unit Staffing

1.0 Position

\$108,000 Total Funds

\$ 54,000 FF

\$ 54,000 Other Funds

The Governor's Budget extends the limited-term position in the Specialty Mental Health Waiver Unit, for two years. This position is responsible for the highly complex Medi-Cal Specialty Mental Health Services Consolidation Waiver and a number of complex policy and litigation issues related to the Waiver in developing, implementing and integrating the expanded mental health services.

The workload associated with this waiver continues to increase as the CMS increases monitoring for compliance with waiver requirements pertaining to renewal, cost neutrality, amendments, and reporting requirements. In addition there continues to be a growing number of litigation cases mandating the expansion of mental health services.

Federal Deficit Reduction Act of 2005- Citizenship, Asset Eligibility and SSI Disabled Individuals Under Age 21

5.0 Positions \$571,000 Total Funds

> \$285,000 GF \$286,000 FF

The Governor's Budget establishes five (5) positions (two permanent and three limited-term), effective January 1, 2007, to implement the Deficit Reduction Act (DRA) of 2005 requirements consistent with the effective dates. The federal DRA was enacted on February 8, 2006, (Public Law 109-171) and includes provisions that will make a number of changes in the Medi-Cal eligibility criteria for citizenship, asset eligibility (home equity, transfers of assets, annuities and continuing care retirement community entrance fees) and Supplemental Security Income (SSI) disabled individuals under 21 years of age.

The positions will implement and administer changes to the program as a result of the enactment of the DRA. These changes to the Medi-Cal program will stop a potential loss of \$15 billion of federal financial participation if the program did not comply with the DRA requirements.

HIPAA Renewal and Maintenance

19.0 Positions \$2,447,000 Total Funds
1.0 Position (CDPH) \$ 582,000 GF (CDHS/CDPH)
\$1,818,000 FF (CDHS/CDPH)
\$ 47,000 Other Funds (CDPH)

The Governor's Budget extends twelve (12) limited term positions for an additional three years, converts one (1) limited-term position to permanent, and adds seven (7) new three-year limited-term positions. These twenty positions are necessary to comply with the Health Insurance Portability and Accountability Act (HIPAA) mandated by the Federal Government. Specifically, these positions will ensure continuity of services to beneficiaries and payments to providers during the transition to HIPAA compliance as well as to provide ongoing support of implemented technical and business solutions. The resulting changes will also help protect the health care information of millions of Californians, avoid potential fines, loss of federal funding, and provide the opportunity for long-term savings.

Extension of Third Party Liability Branch Limited Term Positions to Maintain and Increase Cost Savings

9.0 Positions \$517,000 Total Funds \$130,000 GF

The Governor's Budget extends nine (9) limited-term positions, expiring June 30, 2007, for an additional two years. These positions were originally authorized in 2005 to address a backlog of Health Insurance Questionnaires. These forms are completed and submitted by county eligibility workers, beneficiaries, medical providers and local agencies to disclose private health insurance coverage possessed by Medi-Cal beneficiaries. Timely processing of the Health Insurance Questionnaires will reduce expenditures to the Medi-Cal program. When other health coverage data is present on the Medi-Cal Eligibility Data System (MEDS), providers should bill the other carrier first; otherwise the Medi-Cal system will deny payment of the claim.

Health Insurance Recovery Group Positions to Maintain and Increase Recoveries

7.0 Positions \$551,000 Total Funds \$138,000 GF

\$413.000 FF

\$387,000 FF

The Governor's Budget converts seven (7) limited-term positions to permanent positions in the Third Party Liability (TPL) Branch's, Health Insurance Recovery Group. The staffing augmentation will significantly increase program savings

through increased private health insurance carrier recoveries. The FY 2005-06 goal of \$700,000 (reduced for implementation time) was met and TPL fully expects to meet its annual recovery goal of \$3.6 million. All funds recovered through the TPL recovery process are recycled back into the Medi-Cal program to assist in the care of other medically needy individuals, thereby effectively abating expenses that would otherwise be borne by the GF.

Provider Enrollment Automation Project

0.0 Positions

\$220,000 Total Funds \$110,000 GF \$110,000 FF

The Governor's Budget provides funding to secure a Procurement Consultant Specialist, an Independent Validation and Verification vendor, and oversight services provided by the Department of General Services for the Provider Enrollment Automation Project (PEAP). They will initiate the development of a provider enrollment case tracking/document management system. In addition, DHCS will request future funding for the vendor to continue automation of Provider Enrollment Branch (PEB) functions, with total project completion scheduled by the end of FY 2009-10.

The PEAP will transfer a labor intensive, manual, paper based business process to an interagency electronic document management environment, providing a more efficient business process for case tracking and provider application document management for PEB. The overall goals of the PEAP will be to improve the provider enrollment process by reducing the application processing timeframes; improve customer service to providers; create timely, onsite reviews for pre-enrollment and re-enrollment high-risk provider applicants; and enable DHCS to perform a complete review on each provider enrollment application.

Ongoing Implementation/Administration of the Hospital Financing Demonstration Including the Health Care Coverage Initiative – SB 1448

11.0 Positions

\$1,122,000 Total Funds

\$ 561,000 GF \$ 561,000 FF

The Governor's Budget provides for eleven (11) positions needed to support the implementation of SB 1448 (Health Care Coverage Initiative) and the development, implementation, and ongoing administration of the new reimbursement methodology required by the Medi-Cal Hospital Care/Uninsured Hospital Care Demonstration Project Act (SB 1100, Statutes of 2005). Four (4) of these positions are limited-term, effective September 1, 2006. These staff will play a critical role in implementing key components of California's new section 1115 Medi-Cal Hospital/Uninsured Care Demonstration (Demonstration). With the previous level of staffing in hospital financing, recoupment of almost \$400 million in GF, and payment of about \$1.7 billion in Disproportionate Share Hospital (DSH) payments was possible. While two components of the

Demonstration have been implemented, other key components have not. The ongoing administration and monitoring of all components, including the Coverage Initiative, will be required throughout the five-year term of the Demonstration.

California Mental Health Disease Management Program - Prop 63

0.0 Positions \$133,000 Total Funds

\$ 67,000 FF

\$ 66,000 Other Funds

The Governor's Budget supports increases in contract funding identified as necessary by the California Mental Health Disease Management (CalMEND) program implementation activities, Contractor's feasibility studies and needs assessments conducted since the inception of the program in FY 2004-2005. CalMEND began as a pilot by CDHS' pharmacy staff to improve the cost-effectiveness of services provided to persons with severe mental health disorders who are served by any State of California Department or Agency through the implementation of a care management program, including medication algorithms for support of clinical decision-making. As a result of program experience to date, this increase is necessary in order to implement program activities determined necessary through an initial strategic planning process completed in 2006.

Information Technology Support for TPL Medicare Operations

5.0 Positions \$729,000 Total Funds \$182,000 GF

\$547,000 FF

The Governor's Budget provides for five (5) permanent positions and \$180,000, for Data Center costs to support the Medi-Cal program's responsibilities pursuant to the Medicare Modernization Act of 2003 prescription drug coverage (Medicare Part D) program. It is essential that DHCS augment its information technology resources to provide system support for the Medicare Buy-in Program and the interfaces needed to process Medicare/Medi-Cal dual eligible beneficiary transactions accurately and timely. The new positions will monitor and support ongoing daily data processing operations as well as ensure proper interface with all the agencies administrating the various benefits provided. Interfacing with the federal government systems is an essential part of their responsibilities. Specifically, the addition of these five positions will ensure that the Medicare Buy-In system will continue to process data timely for correct Part A and B premium payments and that Medicare Part D will function properly in concert with Medi-Cal, including the state contribution payments, and support cost avoidance efforts for both new and existing programs. Without adequate technical resources, inaccuracies in data records can result in barriers to care for the State's Medicare/Medi-Cal beneficiaries, and the State will not be able to comply with federally mandated data capture and reporting.

Medi-Cal Claims Processing Systems & Policy Management-Planning and Development for Replacement CA-MMIS

22.0 Positions \$2,708,000 Total Funds

2.0 Positions (CDPH) \$ 677,000 GF (DHCS/CDPH)

\$1,884,000 FF

\$ 147,000 Other Funds (CDPH)

The Governor's Budget provides for twenty-four (24) limited-term positions to establish the core team responsible for preliminary work necessary to re-procure the Medi-Cal Fiscal Intermediary (FI) contract, including a Medicaid Management Information System replacement component. A recent California Medicaid Management Information System (CA-MMIS) assessment made it clear that the effort to replace CA-MMIS needs to begin immediately to ensure the continued integrity of claims processing. The project team will be responsible for completing the work products necessary to support a Request for Proposal, so that bidders on the next FI contract clearly understand the requirements of system replacement and operations. The current FI contract will expire June 30, 2010, assuming DHCS extends all three optional years available under the contract.

Medi-Cal Supplemental Reimbursement for Health Facilities – AB 959 1.0 Position \$97,000 Total Funds \$97,000 Other Funds

The Governor's Budget provides for one (1) permanent position, effective January 1, 2007, to administer the supplemental reimbursement program authorized by Assembly Bill (AB) 959. The provisions of AB 959 expand the definition of various facility types that could participate in two different Medi-Cal supplemental payment programs. The two supplemental payment programs provide additional federal funds without the need to increase GF expenditures. AB 959 also expands the scope of the current Medi-Cal outpatient supplemental payment program to include county clinics and other government health providers to allow these providers to obtain increased federal funding without any State cost. Participating facilities are required to contract with the State to pay for the State's administrative expenses; therefore, the requested position will be funded solely by local reimbursements.

Increase Health Care Coverage of Eligible Children by Streamlining Operations - SB 437

3.0 Positions \$637,000 Total Funds

3.0 Positions (CDPH) \$318,000 GF (DHCS/CDPH)

\$147,000 FF

\$172,000 Other Funds (CDPH)

The Governor's Budget provides for increased staffing in the DHCS (three positions), CDPH (three positions) and the Managed Risk Medical Insurance

Board to implement the requirements of SB 437. This legislation will reduce the number of uninsured children in California by putting into operation a simple automated process for children applying to the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), to enroll in Medi-Cal or Healthy Families. This will allow children with a Medi-Cal share of cost at time of application to have presumptive eligibility for Healthy Families, and by allowing applicants and beneficiaries to self-certify income and assets.

Implementation of the bill will increase the number of children enrolled in State health programs by providing continuous coverage to children transitioning between Medi-Cal and Healthy Families for children screened ineligible for no cost Medi-Cal at initial application. Additionally, SB 437 requires the existing WIC application process to be modified to allow simultaneous application for WIC benefits and pre-enrollment in Medi-Cal and Healthy Families through an automated enrollment gateway.

Establish and Maintain a CA Rx Prescription Drug Web Site Program – AB 2877

1.0 Position

\$96,000 Total Funds \$96,000 GF

The Governor's Budget provides for one (1) two year, limited-term position to implement the provisions of AB 2877, the California Rx Prescription Drug Web Site program. The provisions of AB 2877 direct the DHCS to establish and administer a website that will provide information to California residents and health care providers about options for obtaining prescription drugs at affordable prices. This concept is consistent with the Governor's commitment to improve healthcare affordability for all Californians. AB 2877 also requires the Department of General Services to establish strategies for the State to achieve savings through greater use of generic drugs, and requires DHCS to provide the Legislature with additional information on implementation of drug contracting.

The California Discount Prescription Drug Program – AB 291116.0 Positions \$8,830,000 Total Funds \$8,830,000 GF

The Governor's Budget establishes sixteen (16) permanent positions to implement the provisions of AB 2911 that creates the California Discount Prescription Drug Program (CDPDP). AB 2911 establishes the CDPDP for the purpose of using drug manufacturer and pharmacy discounts (rebates) to reduce prescription drug prices for uninsured and underinsured Californians. AB 2911 requires the Department to negotiate drug discount agreements with drug manufacturers, and authorizes any licensed pharmacy and any drug manufacturer to participate in the California Discount Prescription Drug Program. AB 2911 also establishes eligibility criteria and application procedures for eligible Californians to participate in the CDPDP. The discounts to CDPDP eligible

enrollees will be funded by rebates from drug manufacturers negotiated by the Department. AB 2911 establishes the CDPDP Fund into which all payments received under the program would be deposited. Moneys in the Fund would be available for the purposes of the CDPDP only upon appropriation by the Legislature.

Adult Day Health Care Program Restructuring – SB 1755

46.0 Positions \$3,967,000 Total Funds
1.0 Position (CDPH) \$1,884,000 GF (DHCS/CDPH)

\$2,033,000 FF

\$ 50,000 Other Funds (CDPH)

The Governor's Budget provides for forty-seven (47) positions to implement SB 1755 and follow-up to the Medi-Cal Payment Error Study. SB 1755 authorizes DHCS to make significant reforms to the Adult Day Health Care (ADHC) program under Medi-Cal. SB 1755 provides a set of definitions relating to ADHC services, revises the standards for participant eligibility and medical necessity criteria in receiving ADHC services, sets forth new standards for the participant's personal health care provider and the ADHC center staff physician, requires ADHC centers to provide a set of core services to every participant every day of attendance, and restructures the rate methodology to a prospective cost-based process requiring audited cost reporting.

Medi-Cal Community-Living Support Benefit Waiver Pilot Project – AB 2968

3.0 Positions \$405,000 Total Funds

1.0 Positions (CDPH) \$145,000 FF

\$260,000 Other Funds (DHCS/CDPH)

The Governor's Budget provides for four (4) limited term positions to perform and support the new workload associated with the implementation of AB 2968. The provisions of AB 2968 require the Department to develop and implement a program to provide a community-living support benefit to Medi-Cal beneficiaries residing in the City and County of San Francisco who would otherwise be homeless, living in shelters or institutionalized. AB 2968 further mandates the Department to submit any waiver application, modify any existing waiver, or amend the Medicaid State Plan, as necessary to provide this benefit. The Department shall implement this benefit only to the extent that federal financial participation is available, and the City and County of San Francisco provides county funds for State administration, and to match federal funds for services provided under the waiver. A Medicaid 1915(c), Home and Community Based Services waiver will be required to implement this pilot project.

In addition, the Medi-Cal Estimate includes one-time funding totaling \$850,000 (over two years) in local assistance that includes \$250,000 to conduct a rate study to develop federally-acceptable "bundled" services and rates; \$300,000 to

develop claims processing edits in the fiscal intermediary system; and \$300,000 to develop and implement aid codes for this population.

Medi-Cal Enrollment of Certified Nurse Practitioners – AB 1591

1.0 Position \$96,000 Total Funds

\$24,000 GF \$72,000 FF

The Governor's Budget provides for one (1) permanent position to meet the additional workload for the processing of Medi-Cal provider enrollment applications of certified nurse practitioners resulting with the implementation of AB 1591. The additional position will ensure that the Provider Enrollment Branch meets the new statutory requirements while continuing to verify that all applicants meet state and federally required standards of participation.

In addition, the Medi-Cal Estimate includes \$105,714 in the Fiscal Intermediary item of local assistance for changes to the Medicaid Management Information System. Through a System Development Notice, the Department will instruct the Fiscal Intermediary to add new provider types, categories of service and service codes for the newly eligible certified nurse practitioner specialties

MEDI-CAL LOCAL ASSISTANCE

The Medi-Cal GF costs in FY 2007-08 are expected to increase by \$979.8 million from FY 2006-07 estimated expenditures of \$13.6 billion to \$14.6 billion. The increase in expenditures is attributable to proposals as previously discussed and changes listed in Attachment A.

CHILDREN'S MEDICAL SERVICES

Expansion of the California Newborn Hearing Screening Program

0.0 Position \$1,900,000 Total Funds

\$1,463,000 GF \$ 437.000 FF

The Governor's Budget expands the Newborn Hearing Screening Program (NHSP) to all infants in California by requiring all California hospitals with licensed perinatal services to offer hearing screening services and by making available hearing screening services to California newborns who are not delivered in California hospitals. Most of the large hospitals in the state with the largest number of births currently participate in the California Children's Services (CCS) program and have been certified to participate in the NHSP. The number of births that occur in the 100 remaining birthing hospitals ranges from 90 to 4,200. This expansion will result in the screening of an additional 137,000 newborns annually. AB 2651 mandates that all general acute care hospitals with licensed perinatal services participate in the NHSP and screen the hearing of all

newborns delivered in these facilities. This expansion of the NHSP will build upon linkages that currently exist with the California Department of Education and the Department of Developmental Services for referrals of infants identified with hearing loss to the Early Start program.

Pediatric Palliative Care Benefit - AB 748

3.0 Positions

\$408,000 Total Funds \$174,000 GF \$234,000 FF

The Governor's Budget provides for three (3) limited-term positions to be administratively established on January 1, 2007, for implementation of AB 1745. The positions will be responsible for the development, implementation, ongoing management and evaluation of a Medi-Cal pilot project waiver for a pediatric palliative care benefit as mandated in AB 1745. The mandate requires the initiation of a pilot project to offer palliative care to individuals, under 21 years of age, with life-threatening conditions.

OFFICE OF LEGAL SERVICES

Information Privacy and Physical Security

3.0 Positions

\$(148,000) Total Funds \$ (27,000) GF \$(127,000) FF \$ 6,000 Other Funds

The Governor's Budget provides for three (3) limited-term positions to improve the Department's ability to protect employees, program beneficiaries, and the general public from the unauthorized disclosure of personal confidential information. These positions will provide assurance that appropriate levels of physical security are provided for all DHCS offices, that on-going monitoring for compliance with policies and procedures is conducted, that information security breaches are reported timely and fully investigated, and that all DHCS employees receive annual training on information security and privacy and their related roles and responsibilities. The funding for these positions will be allocated to the department's programs as a distributed cost and is offset by savings in HIPAA contract funding that previously funded some of these activities.

MEDI-CAL LOCAL ASSISTANCE ADJUSTMENTS

Adjustments for 2006-07 Compared to the 2006-07 Budget Appropriation and Changes from 2006-07 to 2007-08

- PC 15 New Qualified Aliens: The Personal Responsibility and Work Opportunity and Reconciliation Act of 1996 specified that federal funds are only available for emergency services for nonexempt qualified aliens during the first five years they are in the country. California law requires that legal immigrants receive the same services as citizens; therefore, full-scope services are provided to new nonexempt qualified aliens and the amount of federal funding claimed for the cost of non-emergency services is reimbursed to the federal government. The amount of funding that will be returned to the federal government for non-emergency services is expected to be \$11.4 million GF less in 2006-07 than anticipated in the 2006-07 Appropriation. The cost of non-emergency services for new qualified aliens is expected to increase by \$15.6 million in 2007-08, resulting in an increase in the repayment to the federal government in 2007-08 of \$7.8 million.
- PC 17 Adult Day Health Care: 2006-07 costs for Adult Day Health Care (ADHC), a community based program providing health, therapeutic and social services designed to service those at risk of being placed in a nursing home, are expected to be \$27.7 million GF less than budgeted in the 2006-07 Appropriation due to the continuation of the moratorium on adding new facilities to the program and the work the Department is doing to identify and close ADHC facilities that are not providing care or billing appropriately. Costs in 2007-08 are expected to increase by \$8.0 million GF due to rate increases and increased users of service in current facilities.
- PC 20 Conlan v. Bontá: In Conlan, Schwarzmer and Stevens v. Bontá, the court ordered the Department to develop a plan through which Medi-Cal beneficiaries who are unable to get reimbursement from providers for out-of-pocket medical expenses that should be covered by Medi-Cal can receive direct reimbursement from the Medi-Cal Program. Reimbursements under this plan, which applies to services paid in the three months prior to application for Medi-Cal, while Medi-Cal eligibility was being determined and for other health coverage copayments, are expected to begin in March 2007. This is a delay from the October 2006 start of reimbursements assumed in the May 2006 Estimate, resulting in a savings in 2006-07 of \$9.1 million GF, compared to the 2006-07 Appropriation. Benefit costs in 2007-08 are expected to be \$22.4 million GF, an increase of \$17.5 million from 2006-07.
- <u>PC 21 Human Papillomavirus Vaccine</u>: Effective January 1, 2007 Medi-Cal is covering the new FDA approved vaccine to prevent the human

papillomavirus, strains of which have been identified as the cause of cervical cancer. The vaccine will be covered for females age 9 through 18 years of age by the federal Vaccines for Children program. The cost for the three dose vaccine for women ages 19 through 26 is expected to be \$1.9 million GF in 2006-07 and increase by \$3.7 million to \$5.6 million GF in 2007-08.

PC 34 SCHIP Funding for Prenatal Care: In order to maximize revenues, a State Plan Amendment (SPA) was filed in the State Children's Health Insurance Program (SCHIP) to claim 65% federal funding for prenatal care provided to women currently ineligible for federal funding for this care. The SPA was filed on June 30, 2005, which allowed SCHIP funding to be claimed in 2005-06 for both 2004-05 and 2005-06 and on an ongoing basis. Savings in 2006-07 are expected to be \$112.1 million GF, \$17.9 million GF greater than anticipated in the Appropriation. This increase in savings is due to the fact that federal funding for costs paid in May and June 2006 was not claimed in 2005-06 and will, therefore, be claimed in 2006-07. Claiming in 2007-08 is expected to be for 12 months, resulting in a reduction in claiming compared to 2006-07 of \$14.9 million.

PC 46 Family PACT Rebates and PC 47 State Supplemental Drug Rebates: The Department continues in its efforts to maximize the drug rebates it collects. In 2006-07, the rebates are expected to be \$14.2 million GF higher than anticipated in the 2006-07 Appropriation (\$7.8 million GF higher in state supplemental rebates and \$6.4 million GF in Family PACT rebates). In 2007-08 these rebates are expected to increase in relation to the increase in pharmacy costs. Total Family PACT rebates are expected to be \$13.2 million GF in 2007-08; state supplemental rebates are expected to be \$189.8 million GF.

Hospital Financing: SB 1100 (Chapter 560, Statutes of 2005) implemented the provisions of the Medi-Cal Hospital /Uninsured Care Demonstration (MH/UCD), approved in September 2005. Under SB 1100 and the waiver, the process for funding hospital costs and using intergovernmental transfers (IGTs) to draw down federal funding for uncompensated inpatient care has been significantly changed. Most of the provisions of the bill were implemented in 2005-06. The following policy changes reflect significant changes in costs for 2006-07 from those anticipated in the 2006-07 Appropriation:

<u>PC 76 Hospital Financing – Private Hospital DSH Replacement</u>: Title XIX federal funding and GF are budgeted to provide private hospitals with replacement funding for the funding previously provided through the Disproportionate Share Hospital (DSH) Program. This funding is \$32.4 million GF less in 2006-07 than budgeted in the 2006-07 Appropriation due to shifting payments from 2006-07 to later years. In 2007-08, the GF is expected to be reduced by an additional \$6.9 million.

PC 89 Hospital Financing – DPH Rate Reconciliation: The shift of funding for designated public hospitals (DPH) in the Medi-Cal budget from 50% GF/50% Title XIX federal funding to 100% federal funding based on certified public expenditures resulted in some hospitals receiving additional federal funding and others needing to reimburse the Department for their costs in excess of the allowable federal funding. Due to the fact that the federal government had required that physician and non-physician professional services be deleted from the hospital claiming and funded under a separate SPA, the Department has specified that the repayments are not due until the Physician SPA is approved in 2006-07. The amount the Department expects to receive in repayments in 2006-07 is \$30.5 million GF, \$34.7 million GF less than the \$65.2 million anticipated in the Appropriation. The reduction in expected repayments is based on the latest actual data; at the time of the 2006-07 Appropriation only estimates were available. All repayments are expected to occur by June 2007, resulting in a cost of \$30.5 million GF in 2007-08 when costs for 2007-08 are compared to 2006-07.

Base PC 100 Medicare Payments: The Medi-Cal Program expects to pay Medicare Part A inpatient premiums for 144,343 average monthly Medi-Cal beneficiaries in 2006-07 and Part B outpatient premiums for 1,085,391. The costs for the premiums are expected to be \$48 million GF less in 2006-07 than anticipated in the 2006-07 Appropriation due to a 2% reduction in the number of beneficiaries for whom Part A premiums are paid, a 1% reduction in the beneficiaries for whom Part B premiums are paid and lower premiums for 2007 than anticipated. Costs are expected to increase by \$87.1 million GF in 2007-08 due to an increase in premiums in January 2007 of \$17 for Part A and \$5 for Part B, expected premium increases in January 2008 of \$18 for Part A and \$5.30 for Part B, as well as growth in the number of persons covered.

Base PC 101 Medicare Payments – Part D Phased-Down Contribution The Medicare Part D drug benefit included in the Medicare Modernization Act (MMA) was implemented in January 2006. Medi-Cal discontinued coverage of all drugs for Medi-Cal/Medicare dual eligibles that are covered under Part D. The MMA requires states to contribute part of the savings obtained from no longer covering most drugs for dual eligibles. The initial payment for this "clawback" is 90% of the savings as identified under federal formula, which is reduced each year until it reaches 75% on an ongoing basis. Clawback payments are expected to be \$1.217 billion GF in 2007-08, \$16.1 million less than budgeted in the Appropriation. In 2007-08, the clawback is expected to be reduced by \$23.3 million as California's share of the costs continues to reduce toward 75%.

- <u>County Administration</u>: County Administration costs are expected to increase by \$8.6 million GF in 2006-07 compared to the Appropriation, mainly due to increased costs for CalWORKs applications and eligible growth. In 2007-08, costs are expected to increase by \$42.5 million GF, mainly due to eligible growth and the expected increase in the counties' costs for determining Medi-Cal eligibility.
- <u>Fiscal Intermediary</u>: Costs for the fiscal intermediary are expected to be \$7.4 million GF higher in 2006-07 than assumed in the Appropriation with no change in 2007-08.
- <u>All Other</u>: All other changes amount to a decrease of \$3.8 million compared to the 2006-07 Appropriation. These changes include the net impact of all other changes not listed above.

Additional Adjustments in 2007-08

The following paragraphs briefly describe additional items that are not already discussed under the 2006-07 Section:

- PC 3 Redetermination Form Simplification: The Medi-Cal annual redetermination form has been revised to make it shorter and more user-friendly. The number of beneficiaries that complete the annual redetermination is expected to increase by 2% due to the simpler form. The costs will phase-in and are expected to be \$36.9 million GF in 2007-08, \$18.7 million GF higher than in 2006-07.
- PC 11 SB 437 Self-Certification: SB 437 (Chapter 328, Statutes of 2006) establishes a two year pilot project to be implemented in two counties with 10% of the Medi-Cal beneficiaries to allow self-certification of income and assets during the Medi-Cal application and redetermination processes. The pilot is to determine if self-certification can increase enrollment in Medi-Cal while protecting the integrity of the program. The pilot project is to begin in July 2007 and is expected to cost \$10.3 million GF in 2007-08.
- PC 36 Adult Day Health Care Reforms: In 2007-08 the first component of the ADHC reforms authorized by AB 1755 (Chapter 691, Statutes of 2006) will be implemented. This reform will tighten the medical criteria used to determine which persons are eligible to receive ADHC services. The savings in 2007-08 is expected to be \$2.5 million GF. Annually, tightening medical criteria is expected to save \$15.2 million GF.
- PC 41 Drug Reimbursement Reduction: Consistent with the federal Deficit Reduction Act (DRA) of 2005 the budget proposes to change the reimbursement structure for pharmacy reimbursement to average

- manufacturer price (AMP), effective August 1, 2007. This is expected to result in 2007-08 savings of \$44 million GF.
- PC 55 Restoration of Provider Payment Decrease: AB 1762 (Chapter 230, Statutes of 2003) required the Department to reduce payments to specified providers by 5%. This resulted in a 2% reduction in managed care rates. Under the provisions of the bill, the reduction ended on December 31, 2006. Managed care plan rates are being redetermined to incorporate the restoration of the reduction. The cost in 2007-08 is expected to be \$66.4 million GF, \$33.3 million GF higher than the cost budgeted for 2006-07.
- PC 65 SNF Rate Changes and QA Fee (AB 1629)/ PC 73 NF-B 2007-08 Rate Cap Adjustment: AB 1629 (Chapter 875, Statutes of 2004) provides for a cost of living increase, the establishment of a facility specific rate methodology, and the imposition of a quality assurance (QA) fee for freestanding skilled nursing facilities (SNFs), including adult sub-acute days. The required SPAs were approved in September 2005. The cost of living increase was implemented in October 2005, retroactive to August 2004; a 3% QA fee was implemented in December 2005 retroactive to August 2004; the revised rate methodology and a 6% QA fee were implemented in April 2006, retroactive to August 1, 2005. The 2006-07 rate increase, capped at 5%, was implemented in October 2006, retroactive to August 2006. In 2007-08, the bill requires a rate increase capped at 5.5%. As a result of these increases, costs for the AB 1629 SNF rate changes are expected to increase by \$96.5 million GF in 2007-08, as shown in Policy Change 65. However, the Department is proposing legislation to cap the allowable rate increases at 4.5% for the rate year beginning August 1, 2007. The lower cap is expected to reduce costs by \$14.4 million GF in 2007-08, as reflected in Policy Change 73.
- PC 66 LTC Rate Adjustments: The Medi-Cal State Plan requires that long-term care (LTC) rates be adjusted each year. With the passage of AB 1629, discussed earlier under Policy Change 65, this requirement now applies only to level A nursing facilities, hospital distinct-part level B nursing facilities, rural swing beds, hospital distinct part sub-acute beds; pediatric sub-acute beds and intermediate care facilities for the developmentally disabled (ICF-DD). The rate increase effective August 2006 for ICF-DDs is 2.02%; for all others it is 7.86%, resulting in an annual cost of \$63.7 million GF. The estimated rate increase for ICF-DDs for August 2007 is 3.01%; for all others it is 8.93%, resulting in an annual cost of \$64.3 million GF. As a result of these increases, costs in 2007-08 are expected to be \$34.2 million GF greater than in 2006-07. The rate increases are also applied to the LTC components of managed care and PACE, SCAN and OnLok; costs for their rate changes are included in the applicable managed care policy changes.

- PC 72 NF A/B Waiver Cap Increase: In response to the increased cost of nursing level care and enactment of nursing facility rate increases, the Department will increase the annual individual waiver services limit for beneficiaries in the NF A/B Level of Care Waiver effective July 1, 2007, from \$24,551 to \$29,548 for beneficiaries needing care at the level provided by Nursing Facility Level As, and from \$35,948 to \$48,180 for beneficiaries needing Nursing Facility Level B care. These increases will allow beneficiaries to absorb recent increases in In-Home Supportive Services and Waiver Personal Care Services rates so they may continue to receive safe and appropriate home care in lieu of long-term institutional placement. The cost of this increase for both current and expected waiver enrollees is estimated to be \$4.6 million GF in 2007-08.
- PC 85 Hospital Financing Stabilization Funding: Stabilization funding provided to non-DPHs, private hospitals and distressed hospitals under the provisions of SB 1100 for uncompensated Medi-Cal costs is comprised of GF made available from federalizing four state only programs, any additional GF needed and Medicaid federal funding. \$69 million GF is expected to be needed for each year to cover costs for 2005-06 and 2006-07. Payment for both years is expected to occur in 2007-08, resulting in a cost in that year of \$69 million GF.
- Base PC 49 Two Plan Model; Base PC 50 County Organized Health Systems: Two Plan Model and County Organized Health System (COHS) managed care plans are expected to experience growth in enrollees in 2007-08 which will result in increased managed care base costs of \$30.4 million GF for the twelve Two Plan Model counties and \$10.3 million GF for the eight COHS counties.
- Base PC 53 Senior Care Action Network: The Senior Care Action Network (SCAN) plans in Los Angeles, San Bernardino and Riverside Counties provide services on a capitated basis for persons with both Medicare and Medi-Cal coverage who become certified for SNF or ICF level of care. The beneficiaries enrolled receive medical, social and case management services. Costs in 2007-08 are expected to increase by \$32.6 million GF due to significant growth in the number of beneficiaries enrolled as a result of the outreach programs instituted by the plans beginning in January 2006.
- Base PC 54 PACE: Enrollment in the Program of All-Inclusive Care for the Elderly (PACE) is expected to increase by 19% from 2006-07 to 2007-08. The costs for this program, which provides all medical, home and community-based and long-term care services to Medi-Cal/Medicare dual eligibles certified to be in need of skilled nursing or intermediate care facility level of care, are expected to increase by \$7.1 million GF in 2007-08.

Base PC 104 Dental Services: Costs for dental services provided through Delta Dental are expected to increase by \$26.5 million GF from 2006-06 to 2007-08 due to an increase in the number of Medi-Cal beneficiaries that will be provided services under the contract. The rate beginning in August 2005 is \$8.52 per person for all Medi-Cal beneficiaries except Refugees, who have a rate of \$34.99. 2006-07 rates are currently being negotiated with Delta Dental.

<u>Fee-For-Service Base</u>: The fee-for-service base costs are expected to increase by \$465.0 million GF from 2006-07 to 2007-08. This increase is driven mainly by projected increases in Pharmacy, Inpatient and Other Medical, where the largest cost is for Federally Qualified Health Centers. The expected increase in Pharmacy costs is equally due to increased users, number of prescriptions and rates. Base Inpatient costs and Other Medical costs are expected to increase mainly due to increased users and rates. There are also cost increases for the other categories of service which are of less significance. The fee-for-service base cost increase can be seen across all aid categories except LTC.

<u>All Other</u>: All other changes amount to an increase of \$20.4 million GF compared to 2006-07. These changes include the net impact of all other changes not listed above.